

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
501(c)(3) REVENUE BOND FINANCING PROGRAM**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	The J. David Gladstone Institutes (Borrower or Gladstone)	Amount Requested:	Not to exceed \$153,000,000 tax-exempt and taxable
Applicant Description:	An independent non-profit biomedical research institution affiliated with the University of California, San Francisco, devoted to research into cardiovascular disease, viral infections and neurological disorders.	Date of Board Meeting:	September 27, 2011
		Resolution Number:	11-22
		Type of Bonds:	Refunding and New Money
Project Site:	1650 Owens Street, San Francisco, CA 64158	Prepared by: Derrick Moore	
Project Description:	The project (Project) involves (1) refunding all or a portion of the California Infrastructure and Economic Development Bank Revenue Bonds, Series 2001 (The J. David Gladstone Institutes Project), that was used to finance the acquisition of a 60,000 square foot parcel of land and the construction of an approximately 185,000 sq ft building located at 1650 Owens Street, San Francisco, along with associated facilities, improvements, equipment and furnishings for research and administrative purposes and (2) financing the acquisition and installation of equipment and related facility improvements to be used in connection with the laboratory services and research activities.		
Uses of Bond Proceeds:	Bond proceeds (2011 Bonds) will be used to pay the costs of the Project and issuance costs of the bonds.		
Public Benefits:	The Borrower estimates that the Project will reduce bond debt service payments by approximately \$1.2 million, which savings can be used to further the organization's research objectives, and also allow for the purchase of additional laboratory and research equipment to accommodate research scientist and lab members the Borrower plans to hire over the next five years.		
Financing Structure:			
Type of Issue:	Publicly-offered fixed-rate securities in minimum denominations of \$5,000 or any integral multiple thereof.		
Tax Status:	Tax-exempt 501(c)(3) bonds and taxable bonds.		
Term:	Up to 34 years.		
Credit Enhancement:	None.		
Credit Rating:	Expected rating is at least “A-” from Standard & Poor’s and “A” from Fitch based on the financial strength of the Borrower.		
Total Est. Sources of Funds:		Total Est. Uses of Funds:	
Tax Exempt Bond Proceeds	\$114,155,000	Refund Prior Bonds	\$123,921,950
Premium on Tax Exempt Bonds	1,402,854	Project Fund	5,000,000
Taxable Bond Proceeds	5,110,000	Cost of Issuance	1,478,779
2001 Debt Service Reserve Fund	9,732,875		
TOTAL SOURCES	\$130,400,729	TOTAL USES	\$130,400,729
Financing Team:			
	Bond Counsel:	Orrick, Herrington & Sutcliffe LLP	
	Underwriter:	Goldman Sachs	
	Underwriter’s Counsel:	Latham Watkins LLP	
	Trustee:	Bank of New York Mellon Trust Company, N.A.	
Staff Recommendation:			
Staff recommends approval of Resolution 11-22 authorizing the issuance of tax-exempt 501(c)(3) bonds and taxable bonds in an amount not to exceed \$153,000,000 for The J. David Gladstone Institutes.			

BACKGROUND AND HISTORY

The J. David Gladstone Institutes is an independent, California nonprofit biomedical research institution that was created by a charitable trust established in 1972 pursuant to a bequest under the Last Will and Testament of J. David Gladstone, a successful Los Angeles real estate entrepreneur and developer. In connection with the establishment of the trust, three trustees were appointed with primary responsibilities that include the direction and oversight of the institutes' research activities and managing the trust's investment portfolio.

The J. David Gladstone Institutes is composed of three separate institutes. The Gladstone Institute of Cardiovascular Disease, which opened in 1979, focuses on atherosclerosis and its complications. In 1992, the Gladstone Institute of Virology and Immunology was established to study HIV, the causative agent of AIDS. The 1993 discovery that the apolipoprotein E-long studied at the Gladstone Institute of Cardiovascular Disease for its role in heart disease also played a role in Alzheimer's disease as well led to the establishment of the Gladstone Institute of Neurological Disease in 1998. The Gladstone also operates the Gladstone Center for Translational Research, established in 2006, to move basic research discoveries into patient therapies. The J. David Gladstone Institutes' funding for their research activities comes primarily from federal research grants (National Institute of Health), grants from other public and private organizations and investment revenue received from the trust's portfolio. Gladstone's executive offices are located in Irvine, California.

The three institutes are located in Gladstone's biomedical research facility, adjacent to the Mission Bay campus of the University of California, San Francisco (UCSF). While independent, Gladstone is formally affiliated with UCSF, and Gladstone investigators hold university appointments and participate in many university activities, including the teaching and training of graduate students.

Each institute is organized around research units consisting of scientists, postdoctoral researchers, research associates, and students. This structure is designed to accommodate small groups of scientists who work together closely but who also benefit from collegial interactions with other research groups. Collaborations among staff members with various areas of expertise create a stimulating environment that fortifies the scientific lifeblood of the organization. Each institute receives expert input on the progress of its science from an advisory board of distinguished scientists. The scientific advisory boards provide a twofold service in reviewing the quality of the research and in advising the president, directors, and trustees. The work of the scientific staff at all three institutes also extends beyond the laboratory to the wider community. The mission of the institutes includes the education of graduate and medical students, postdoctoral fellows, and visiting scientists; specialized training for practicing physicians; and educational outreach to the local and extended community. A list of current Trustees and executive management is provided in Appendix A.

PROJECT DESCRIPTION

The Project involves the redemption of all or a portion of the outstanding principal amount of the California Infrastructure and Economic Development Bank Revenue Bonds, Series 2001 (The J. David Gladstone Institutes Project) (Prior Bonds). The Prior Bonds have a current outstanding balance of \$130,505,000. These bonds were originally issued October 25, 2001 with a par amount of \$145,000,000 to finance the acquisition of a 60,000 square foot purchase of land located adjacent to the University of California, San Francisco's Mission Bay Campus, and the construction of an approximately 185,000 square foot biomedical research and administrative facility, along with improvements, equipment and furnishings (See Appendix B – Pictures). The facilities and improvements financed by the Prior Bonds were completed in 2004.

Bond proceeds from the issuance of the 2011 Bonds will also be used to finance the acquisition and installation of equipment to accommodate the additional research scientists and lab members Gladstone plans to hire over the next five years, and also finance the related facility improvements to be used in connection with the laboratory and research activities to be conducted.

FINANCING STRUCTURE

Gladstone requests approval for the issuance of tax-exempt 501(c)(3) bonds and taxable bonds in an amount not to exceed \$153,000,000. The 2011 Bonds will be issued pursuant to an indenture between the I-Bank and Bank of New York Mellon Trust Company, N.A., as Trustee, and a loan agreement between I-Bank and Gladstone (Loan Agreement). It is expected that the 2011 Bonds will carry ratings of at least "A-" from Standard & Poor's (S&P) and "A" from Fitch Ratings, Inc. based on the financial strength of Gladstone. The obligation to make payments under the Loan Agreement will be backed by Gladstone's pledge of its Gross Unrestricted Revenues.

In no event shall the 2011 Bonds constitute a pledge of the faith and credit of the State or any political corporation, subdivision or agency of the State, and neither the State nor any political corporation, subdivision or agency of the State shall be liable to make any appropriation for the repayment of the 2011 Bonds. The 2011 Bonds shall constitute a special obligation of the I-Bank, payable solely from revenues or other sources provided for in the Loan Agreement between the I-Bank and the Gladstone.

PUBLIC BENEFITS

The Borrower estimates the refunding of the Prior Bonds will result in a debt service cash flow savings of approximately \$1.2 million, and that the savings can be used to further the organization's research objectives.

Also, the new money portion of the 2011 Bonds will provide for the purchase of research and laboratory equipment and reconfiguring lab units to accommodate the addition of research scientists and lab members the institute plans to hire over the next five years.

OTHER PROJECT DATA

PROJECT PERMIT STATUS	
Compliance with local land use and zoning**	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO, Describe:
Local approvals and permits obtained (other than construction permit)?***	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO, Describe:
TEFRA	
Date of TEFRA	September 23, 2011
Publications	<i>The Sacramento Bee</i> <i>San Francisco Examiner</i>
Oral/Written Comments Received	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
LEGAL QUESTIONNAIRE	
Completed?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES
Issues?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
ELIGIBILITY REVIEW	
Borrower meets all of the I-Bank eligibility criteria? <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	<ol style="list-style-type: none"> 1. Project is in the State of California. 2. Borrower has represented that the facilities originally financed with the proceeds of Prior Bonds were consistent with any existing local or regional comprehensive plans. 3. The Borrower is capable of meeting the obligations incurred under the proposed Loan Agreement and tax agreement, and, in particular as to its loan repayment obligations which secure the 2011 Bonds by Fitch. as a result of having met the requirements for a rating of at least A- on the 2011 Bonds, based on the financial strength of the Borrower to make loan repayments that will be used by the Borrower to pay the principal and interest on the 2011 Bonds.. 4. Payments to be made by the Borrower to the I-Bank under the proposed financing agreements are adequate to pay the current expenses of the I-Bank in connection with the financing and to make all the scheduled payments. 5. The proposed financing is appropriate for the Project. 6. Borrower has represented that the facilities originally financed with the proceeds of Prior Bonds were consistent with any existing local or regional comprehensive plans. The Project capital components are consistent with any existing local or regional comprehensive plans to the extent that they are applicable.
The Project meets the Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities established as guidelines for I-Bank Staff by the Board: <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> NO <input type="checkbox"/> YES Certificate No.: <input checked="" type="checkbox"/> N/A Date:

**Compliance confirmed as part of the Prior Bonds approval.

***Approvals and permits confirmed as part of the Prior Bonds approval. No new permits necessary for research and laboratory equipment and reconfiguring lab units.

RECOMMENDATION

Staff recommends approval of Resolution 11-22 authorizing the issuance of tax-exempt 501(c)(3) bonds and taxable bonds in an amount not to exceed \$153,000,000 for The J. David Gladstone Institutes.

APPENDIX A – GOVERNANCE AND MANAGEMENT

Trustees and Executive Management	
Albert A. Dorman	Trustee
Andrew S. Garb	Trustee
Richard D. Jones	Trustee
R. Sanders Williams, M.D.	President
Daniel Oshiro	Vice President of Administrative Affairs
John M. Whiting	Vice President and Chief Financial Officer
Vincent E. Moseley	Vice President Finance
Stephen B. Freedman	Vice President for Corporate Liaison
Bruce Spaulding	Chief of Strategic Planning
Virginia Saifer	Chief Development Officer
Jeanette Borzo	Chief Communication Officer

APPENDIX B – PRIOR BONDS PROJECT PICTURES



The J. David Gladstone Institutes

